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SUBJECT: Mozambique's Agricultural Sector Ripe for U.S. Investment

REF: 07 MAPUTO 01341

¶1. SUMMARY: Only 12 percent of Mozambique's arable land is under cultivation. Mozambique's agriculture minister is actively courting international agricultural investment. U.S. agribusinesses are ramping up operations in Mozambique. The GRM is reviewing a national biofuels strategy, and the country's climate is conducive to production of several biofuel crops. U.S. Department of Agriculture assistance focuses on comprehensive rural health, nutrition and education, including the creation of an agricultural university. USAID programs address constraints to agricultural productivity, rural enterprise development, and trade competitiveness. Mozambique's untapped agricultural potential offers interesting opportunities for U.S. investors. END SUMMARY.

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AG SECTOR STILL AT A NASCENT STAGE  
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¶2. Mozambique, approximately twice the size of California, only has 12 percent of its arable land under cultivation. While agriculture contributes about 22% of the country's GDP, close to 80 percent of the country's population is involved in agricultural production. Cotton, sugar, tobacco, cashews, and other cash crops, together with fishing and aquaculture, are the backbone of the agricultural economy. Currently, U.S.-Mozambique bilateral trade in agricultural products is relatively small, totaling approximately \$31 million in ¶2007.

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AG MINISTER: GRM PROMOTES FOREIGN INVESTMENT  
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¶3. On December 11, 2007, Mozambican President Armando Guebuza swore into office the country's new Agriculture Minister, Soares Nhaca. The Minister of Agriculture was formerly governor of the central province of Manica where Universal Company's Mozambique Tobacco Leaf Company has operations. Nhaca has said publicly that the GRM is committed to developing Mozambique's agriculture and is encouraging further foreign investment in the sector.

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U.S. AG COMPANIES RAMPING UP INVESTMENT  
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¶4. U.S. investors, led by Chiquita Banana, Dunavant Cotton, and the Universal Company are ramping up operations in Mozambique. Chiquita selected Mozambique as the headquarters for its Africa operations last year. Chiquita has signed a services agreement with a local investor to market production from 3,000 hectares under the Chiquita label. Dunavant is engaged in cotton production through agreements with more than 30,000 smallholder farmers in Central Mozambique and yields currently average 520 kilograms per hectare. Universal, working with 90,000 smallholders, has increased tobacco production in the province of Tete from 15,000 tons of tobacco three years ago to 28,000 tons today, and is now diversifying into foodstuff production. These U.S. successes have not gone unnoticed, as other

major U.S. agricultural companies have told Emboffs they intend to invest in Mozambique in the near future.

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MOZAMBIQUE AND BIOFUELS: U.S. TECHNOLOGIES HAVE AN  
EDGE  
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¶5. Mozambique has the potential to become a leading producer of biofuels, due to its significant tracts of undeveloped land and climate conducive to biofuel crops. This potential led a U.K. company, Central African Mining & Exploration Company (CAMEC), to sign a USD 510 million deal with the Government of Mozambique in ¶2007. In addition, Mozambique and Brazil signed a cooperation agreement on biofuels in 2007, making Mozambique a strong candidate for further USG-Brazil cooperation on biofuel production. Chinese, Canadian, Italian, Portuguese, and Brazilian companies are already active in the biofuel sector in Mozambique. A South African company with a bio-diesel (jatropha) concession in Inhambane province is using U.S.-technology and equipment exclusively in its production facility.

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USG ASSISTANCE CREATES OPPORTUNITIES: USDA EXAMPLE  
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¶6. Agricultural projects funded by the USG in Mozambique are improving the agricultural environment and enhancing the positive bilateral relationship and the already welcoming environment for U.S. investors. One striking example is the Humana People to People Project, one of several Food for Progress programs funded by the U.S. Department of Agriculture (USDA). This project consists of a comprehensive rural health and education program that establishes Farmer Clubs to increase rural income, reduce the transmission of

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HIV/AIDS, train rural primary school teachers, and provide soy-based meals to undernourished persons. These projects have benefited approximately 7,500 people living with HIV/AIDS, 7,200 pregnant women, and 19,800 orphans. Humana is currently constructing One World University, funded by USDA, which will train teachers to not only be effective educators but leaders in their communities. The proposed date for the dedication of One World University is May 30, 2008.

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USG ASSISTANCE CREATES OPPORTUNITIES: USAID LEADS WAY  
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¶7. USAID is addressing constraints to agricultural productivity, rural enterprise development, and trade competitiveness. USAID programs provide leadership in sector planning and monitoring, improving the investment climate, creating new job opportunities, and developing high impact agricultural value chains (cashew, horticulture, oilseeds, poultry, and forest products). USAID is working through a range of public/private partnerships to leverage additional funding, transfer technologies and management skills, and develop markets. PL 480 Title II activities are well-integrated into the overall program, promoting productivity-enhancing technologies, deepening rural marketing networks, and addressing the root causes of chronic malnutrition in Mozambique. Through improvements in the trade and investment climate and agricultural sector productivity, USAID is assisting the most vulnerable rural families to mitigate environmental risks, produce enough food, and make better decisions about food utilization enabling them to move more rapidly from subsistence to surplus and marketable production that leads to higher family income. In FY07, USAID's programs resulted in over \$12.2 million in agricultural sales from farmers and enterprises receiving assistance: 137,677 rural households, 760 producer associations, and 160 agricultural firms benefited from USAID assistance.

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COMMENT: UNTAPPED POTENTIAL OFFERS EXCITING  
POSSIBILITIES  
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18. COMMENT: There are many constraints to the promotion of foreign direct investment in agriculture in Mozambique. These restraints include the small size of the regional market, the relatively high transport costs of getting products to lucrative markets in the United States and Western Europe, and a sometimes-difficult business environment. Nonetheless, USG-supported development projects have helped create an atmosphere of goodwill; and the interest by major U.S. companies is telling: there are additional opportunities for growth including biofuels, seed, fertilizer, storage facilities, low-cost projects, and staple foods with long shelf lives. Investment and trade opportunities in agriculture are worth further investigation by growth-oriented agribusinesses, and the untapped potential in arable land suggest that Mozambique's agricultural trade profile with the United States and other trading partners could increase considerably.